

ITG News
Keeping First Nations Informed

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Message From The Director

We recently completed our initial Consultation Listening meeting, which was held on November 30th in Anchorage. I want to thank all of the participants who provided input on pending federal tax issues and discussed various concerns involving federal tax administration. This meeting was part of our commitment to meet at least once every three years with interested tribal leadership in each of the 12 BIA regions.

We have scheduled the next Consultation Listening meeting in conjunction with the United South and Eastern Tribes (USET) as part of their Impact Week meeting. The specific date and location for this meeting is:

Tuesday February 7th - 11:00 AM –1:00 PM

Crystal Gateway Marriott
1700 Jefferson Davis Highway
Arlington, Virginia 22202

Those who are unable to attend this meeting can participate in similar meetings to be held in other areas of the country, which will be announced in future issues of ITG News and on our web site. In addition, tribal representatives can submit written input or inquiries at any time through the e-mail link on the bottom of our Consultation web page or by writing to me at:

Internal Revenue Service
SE:T:GE:ITG
1111 Constitution Avenue NW
Washington, DC 20224

In addition to the Listening meetings, an Indian Tribe or group of Indian Tribes may invoke consultation on any issue or IRS action that may impact or is impacting them. A Tribe may also request consultation where it desires to seek the input of the IRS on the potential federal tax consequences of economic opportunities, local laws, agreements, or similar matters that may affect, or be of interest to the Indian Tribe. All such requests may be submitted at any time via e-mail to tege.itg.consultation@irs.gov.

As always, if you would like to discuss any issue, please feel free to contact me at Christie.Jacobs@irs.gov, or via telephone at (202) 283-9800.

Christie Jacobs

Introducing Form 944 – Employer's Annual Federal Tax Return

To reduce the burden on small employers, the IRS has simplified the rules for filing employment tax returns. Starting with calendar year 2006, certain employers will need to file new Form 944 Employer's Annual Federal Tax Return instead of Form 941 Employer's Quarterly Federal Tax Return. Form 944 must be filed by employers whose liability for social security, Medicare and withheld federal income taxes for the calendar year is \$1,000 or less unless:

You file Form 941 electronically,
You expect to pay annual wages totaling more than \$4,000,
You expect your annual liability for social security, Medicare, and withheld federal income taxes to be more than \$1,000,
You have only farm employees (required to file Form 943, Employer's Annual Tax Return for Agricultural Employees), or
You have only household employees (required to file Form 942, Employer's Quarterly Tax Return for Household Employees).

The IRS will directly notify employers who are required to file Form 944. If you believe you are eligible, but are not notified, you can contact the IRS at 1-800-829-0115 to determine your eligibility. Do NOT file Form 944 unless directed to do so by the IRS.

We will be posting links to the new Form 944 and instructions on our web site at www.irs.gov/tribes. In addition, we will be updating Publication 4268, Employment Tax Desk Guide for Indian Tribal Governments, to include specific information on this new form. As always, you can also contact your local ITG Specialist if you have any questions concerning this new provision.

Reporting Allocated Tips on Forms W-2

Employers of large food and beverage establishments must allocate tips among directly tipped employees if the total tips reported during 2005 were less than 8% (or an approved lower rate) of the food and beverage gross receipts for 2005. The allocated tips are reported in box 8 of the employee's Form W-2 Wage and Tax Statement and must be furnished to the employee by January 31, 2006. Allocated tips are not subject to withholding and are not included boxes 1, 3, 5, and 7 on the Form W-2.

Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, is used to determine the total amount of tips to be allocated among the directly tipped employees. All large food and beverage establishments must file Form 8027 by Feb. 28, 2006 or by March 31, 2006 if filing electronically. Instructions for Form 8027 and IRS Reg. § 31.6053-3 provide methods to determine the amount to be allocated to each directly tipped employee.

Large food and beverage establishments are businesses where tipping is customary, food and beverage is served for consumption on the premises, and more than 10 employees work more than 80 hours on a typical business day. More than 10 employees include the total of all food and beverage employees, not just the directly tipped employees. Where there are multiple food and beverage locations but a consolidated payroll, all food and beverage employees must be aggregated to determine if there are more than 10 employees on a typical business day. For further information refer to IRS Reg. § 31.6053-3.

Employee Tip Income Program Questions

ITG has a full-time Tip Coordinator to assist you with any questions about tip reporting agreements. If you are interested in securing a Tip Agreement, have questions concerning your existing agreement, or have received a notice about tip reporting responsibilities that is unclear, please contact Julie Reese at (303) 231-5250, ext. 236.

Customer Satisfaction Survey Results Published

The Office of Indian Tribal Governments recently completed its third annual customer survey obtaining feedback from our customers that will allow us to measure customer satisfaction with our products and services and to determine areas where we need to effect operational changes.

We want to thank everyone who participated. We received input from 187 of the 564 federally recognized Tribes, representing a 33% response rate. This was a slight decrease from 2004 but is a major improvement from the initial survey completed in 2003. While the overall level of satisfaction is a key measure, ITG tabulates the responses to each question and analyzes them by subject area and

the geographic location of the respondents. The following chart provides a general summary:

Level of Burden on Tribes/ Delivery of Information to Tribes:

Eastern/Oklahoma Area

Satisfied 69%

Neutral 23%

Dissatisfied 7%

Great Plains/Great Lakes Area

Satisfied 75%

Neutral 16%

Dissatisfied 9%

Southwest Area

Satisfied 64%

Neutral 18%

Dissatisfied 18%

California/Nevada Area

Satisfied 71%

Neutral 20%

Dissatisfied 10%

Pacific Northwest Area

Satisfied 59%

Neutral 32%

Dissatisfied 8%

Alaska Area

Satisfied 58%

Neutral 34%

Dissatisfied 8%

Proper Collaboration with Tribes:

Eastern/Oklahoma Area

Satisfied 64%

Neutral 26%

Dissatisfied 10%

Great Plains/Great Lakes Area

Satisfied 65%

Neutral 33%

Dissatisfied 2%

Southwest Area

Satisfied 46%
Neutral 23%
Dissatisfied 30%

California/Nevada Area
Satisfied 64%
Neutral 23%
Dissatisfied 13%

Pacific Northwest Area
Satisfied 45%
Neutral 45%
Dissatisfied 10%

Alaska Area
Satisfied 50%
Neutral 37%
Dissatisfied 13%

Adherence to Proper Protocol/All Tribes Treated Equally:
Eastern/Oklahoma Area
Satisfied 70%
Neutral 24%
Dissatisfied 6%

Great Plains/Great Lakes Area
Satisfied 71%
Neutral 27%
Dissatisfied 3%

Southwest Area
Satisfied 63%
Neutral 29%
Dissatisfied 9%

California/Nevada Area
Satisfied 71%
Neutral 28%
Dissatisfied 1%

Pacific Northwest Area
Satisfied 49%
Neutral 48%
Dissatisfied 3%

Alaska Area

Satisfied 53%
Neutral 44%
Dissatisfied 3%

Recognition of Tribal Status and Sovereignty Issues:

Eastern/Oklahoma Area

Satisfied 77%
Neutral 13%
Dissatisfied 10%

Great Plains/Great Lakes Area

Satisfied 82%
Neutral 13%
Dissatisfied 5%

Southwest Area

Satisfied 63%
Neutral 20%
Dissatisfied 18%

California/Nevada Area

Satisfied 73%
Neutral 23%
Dissatisfied 5%

Pacific Northwest Area

Satisfied 62%
Neutral 34%
Dissatisfied 3%

Alaska Area

Satisfied 53%
Neutral 40%
Dissatisfied 8%

Accuracy/Timeliness/Honesty in IRS Actions:

Eastern/Oklahoma Area

Satisfied 58%
Neutral 33%
Dissatisfied 9%

Great Plains/Great Lakes Area

Satisfied 50%
Neutral 47%
Dissatisfied 3%

Southwest Area
Satisfied 52%
Neutral 36%
Dissatisfied 13%

California/Nevada Area
Satisfied 71%
Neutral 23%
Dissatisfied 5%

Pacific Northwest Area
Satisfied 48%
Neutral 43%
Dissatisfied 10%

Alaska Area
Satisfied 46%
Neutral 45%
Dissatisfied 9%

Overall Level of Satisfaction:
Eastern/Oklahoma Area
Satisfied 78%
Neutral 17%
Dissatisfied 4%

Great Plains/Great Lakes Area
Satisfied 87%
Neutral 7%
Dissatisfied 7%

Southwest Area
Satisfied 71%
Neutral 14%
Dissatisfied 14%

California/Nevada Area
Satisfied 82%
Neutral 15%
Dissatisfied 3%

Pacific Northwest Area
Satisfied 68%
Neutral 24%
Dissatisfied 8%

Alaska Area
Satisfied 60%
Neutral 36%
Dissatisfied 4%

A report on the survey is posted to our web site at www.irs.gov/tribes. The Office of Indian Tribal Governments will be developing and implementing actions to effect improvements with a particular focus on Collaboration and Timeliness concerns expressed by respondents. We look forward to input at the ongoing Consultation Listening meetings (see Message From the Director) to further assist in determining improvements.

Reporting Employee Theft and Embezzlement

Unfortunately, all businesses and governmental entities can be victimized by employee theft and embezzlement. While most Tribes have enacted a system of internal controls that significantly minimizes the risk, virtually everyone has encountered this issue.

In most cases, the offending employee is terminated by the Tribe. In some cases, the Tribe may attempt to recover the stolen funds through tribal court action or by referral to local, state, or federal authorities for possible prosecution or issuance of a judgment. This is not always possible, since the amount may be insufficient to warrant legal action or since the employee may have fled the area.

The Office of Indian Tribal Governments is interested in these types of cases since monies illegally obtained through theft or embezzlement are subject to federal taxation. Whether the offending individual is prosecuted or not, we can tax their illegally obtained gain, meaning that they will never completely “get away” with their criminal activity.

If you encounter a theft or embezzlement perpetrated by an employee, please provide us with the specific information by contacting us at tege.itg.schemes@irs.gov or calling Randy Johnson at (405) 297-4407.

Interest Free Adjustments on Forms 941

If you discover an error in reporting on a prior quarter Form 941 Employer's Quarterly *Federal Tax Return* while performing your year end employment tax reconciliation or at any other time during the year, you may make an adjustment interest free on the current quarter.

The adjustment increases or decreases your tax liability on Form 941 for the quarter in which it is reported (that is, the quarter in which the error is discovered) and is interest free. The net adjustments reported on Form 941 may include any number of corrections for one or more previous quarters, including both overpayments and underpayments. The net adjustment must be taken into

account in determining your current quarter liability and may either reduce or increase the deposit amounts required for the current quarter.

Attach Form 941c, Supporting Statement To Correct Information, to the current quarter Form 941 to provide the necessary background information and certifications needed to support the prior quarter adjustments. Note that income tax withholding adjustments may be made only on quarters within the same calendar year unless the error was an administrative error such as a mathematical or transposition error. For further information on Form 941 adjustments refer to Publication 15, Employer's Tax Guide.

Reporting Abuses/Schemes

We continue to work with tribes and tribal officials to address financial abuses and schemes being promoted in Indian country. Working together can help ensure the integrity of tribal finances, and eliminate the threats posed by individuals with schemes that appear "too good to be true" and often are. If you are aware of financial impropriety, or of a promoter advocating a scheme that appears highly suspect, you can contact the ITG Abuse Detection and Prevention Team at (716) 686-4860, or via e-mail at tege.itg.schemes@irs.gov

Publication 4268-Employment Tax Guide for Tribes

Our on-line Employment Tax Guide continues to receive a very positive response from tribal payroll and finance employees. You can download this comprehensive guide from a link on our landing page at www.irs.gov/tribes

Reconciliation of Returns Saves Time and Money

Before filing your end of the year employment tax returns, reconcile all the data to insure that not only is the information correct but also that you will not receive a bill in future years from the IRS due to a mismatch of the data filed. Failure to reconcile the data may also result in employees not receiving proper credit for federal income taxes withheld or for social security and Medicare wages.

Reconcile Forms 941, Employer's Quarterly Federal Tax Return, Form W-3, Transmittal of Wage and Tax Statements, and Forms W-2, Wage and Tax Statement. Suggested steps in reconciling the data are listed below.

Determine annual amounts reported on Forms 941 for 2005 by totaling selected lines from all four quarters for the year. For example, total the amounts from line 2 on all four returns to determine the annual wages, tips, and other compensation.

Compare those annual totals from Forms 941 to the totals reported on Form W-3. For example, the annual total from line 2 on Forms 941 should match the total in

box 1 for "Wages, tips, other compensation" reported on Form W-3 .

Separately verify the total of amounts shown in all boxes on Forms W-2 and compare those totals to the amounts reported in the same boxes on Forms W-3. For example, the total amount shown in box 1 for "Wages, tips, other compensation" for all Forms W-2 should equal the amount reported in box 1 on the Form W-3.

Note that for social security and Medicare taxes, the annual Form 941 amounts should be approximately twice the amounts shown on Form W-3. This is because the Form 941 includes both the employer and the employee share of social security and Medicare taxes.

If there is a discrepancy in the reconciliation, determine the cause of the discrepancy and make appropriate adjustments. Some common causes of discrepancies include failure to include tribal council pay on line 2 of the Forms 941, missing Forms W-2, and incorrect reporting of third party sick pay. If amounts do not match for valid reasons, keep your reconciliation in case there are inquiries from the IRS or Social Security Administration.

Also remember to include employee bonuses on both Forms 941 and Form W-2. For further information on reconciling employment tax data, refer to Publication 15, Employer's Tax Guide, and the instructions for Forms W-2 and W-3. See the article on page 4 on Interest Free Adjustments if corrections are needed for prior quarter Forms 941.

2006 Mileage Rates

The IRS issued the optional standard mileage rates to calculate the deductible costs of operating an automobile effective January 1, 2006. The mileage rate for use of a car (including vans, pickups, panel trucks) will be 44.5 cents per mile for all business miles driven.

The rates are 18 cents a mile for medical or moving purposes and 14 cents per mile driven in service of charitable organizations, other than activities related to Hurricane Katrina relief. Revenue Procedure 2005-78 contains additional information and limitations on the use of standard mileage rates.

Southwest Indian Tribal Governments Specialists

The Southwest Group is dedicated to providing quality service to our customers. If you have any suggestions for improvements, concerns, or innovative ideas, please e-mail Steve Bowers at Steve.D.Bowers@irs.gov. We appreciate and welcome your input.

The Southwest ITG Specialists are listed below with their assigned tribes and

pueblos. If you have a question and your assigned Specialist is not available, please contact Steve Bowers, Southwest Group Manager, at (714) 347-9430 or e-mail him at Steve.D.Bowers@irs.gov.

Aaron Coleman
Aaron.H.Coleman@irs.gov
(602) 207-8751
Arizona: Ak-Chin Indian Community, Fort McDowell Yavapai Nation, Havasupai Tribe, Kaibab-Paiute Tribe, Yavapai-Apache Nation, Yavapai-Prescott Indian Tribe
Utah: Paiute Indian Tribe of Utah

Theresa Nosie
Theresa.S.Nosie@irs.gov
(602) 207-8734
Arizona: Navajo Nation, White Mountain Apache Tribe
Utah: Skull Valley Band of Goshutes

Suzanne Perry
Suzanne.V.Perry@irs.gov
(602) 207-8254
Arizona: Fort Mojave Indian Tribe, Hualapai Tribe, Hopi Tribe, Salt River Pima-Maricopa Indian Community, Tonto Apache Tribe
Utah: Ute Indian Tribe of Utah

Michelle Risk
Michelle.L.Risk@irs.gov
(520) 205-5022
Arizona: Cocopah Indian Tribe, Colorado River Indian Tribes, Fort Yuma-Quechan Indian Tribe, Gila River Indian Community, Pascua Yaqui Tribe of Arizona, San Carlos Apache Tribe, Tohono O'odham Nation

Anita Gentry
Anita.D.Gentry@irs.gov
(505) 837-5573
New Mexico: Isleta Pueblo, Jicarilla Apache Tribe, Laguna Pueblo, Mescalero Apache, San Felipe Pueblo, Sandia Pueblo, Santa Ana Pueblo, Zuni Pueblo

Lonnette Graham
Lonnette.L.Graham@irs.gov
(505) 837-5536
New Mexico: Acoma Pueblo, Jemez Pueblo, Picuris Pueblo, San Juan Pueblo, Santa Clara Pueblo, Santo Domingo Pueblo, Tesuque Pueblo, Zia Pueblo

Catherine St. Gregory
Catherine.M.StGregory@irs.gov
(505) 986-5260 ext. 243

New Mexico: Cochiti Pueblo, Nambe Pueblo, Pojoaque Pueblo, San Ildefonso Pueblo, Taos Pueblo

Colorado: Southern Ute Tribe, Ute Mountain Ute Tribe

Texas: Ysleta Del Sur Pueblo

To add your name or e-mail address to our mailing list, please contact us via e-mail at Suzanne.V.Perry@irs.gov or call Suzanne Perry at (602) 207-8254.

Account or Tax Questions?

Call Customer Account Services at 1-877-829-5500 or contact your assigned ITG Specialist.

Federal Tax Calendar for First Quarter 2006

January 2006

Sunday, January 1 - Stop advance payments of EITC for any employee not filing a new Form W-5

Thursday, January 5 - * make a deposit for 12/28-12/30

Friday, January 6 - * make a deposit for 12/31-1/3

Tuesday, January 10 - Employees report December tip income to employers if \$20 or more

Wednesday, January 11 - * make a deposit for 1/4-1/6

Friday, January 13 - * make a deposit for 1/7-1/10

Tuesday, January 17 - ** Make a deposit for December if under the monthly deposit rule

Thursday, January 19 - * make a deposit for 1/11-1/13

Friday, January 20 - * make a deposit for 1/14-1/17

Wednesday, January 25 - * make a deposit for 1/18-1/20

Friday, January 27 - * make a deposit for 1/21-1/24

Tuesday, January 31 - Give employees copies of their Forms W-2 for 2004, and give annual information statements (Forms 1099, 1098, 5498, and W-2G) to all recipients of reportable payments

February 2006

Wednesday, February 1 - * make a deposit for 1/25-1/27

Friday, February 3 - * make a deposit for 1/28-1/31

Wednesday, February 8 - * make a deposit for 2/1-2/3

Friday, February 10 - * make a deposit for 2/4-2/7

Employees report January tip income to employers if \$20 or more

Wednesday, February 15 - * make a deposit for 2/8-2/10

** Make a deposit for January if under the monthly deposit rule

Friday, February 17 - * make a deposit for 2/11-2/14

Thursday, February 23 - * make a deposit for 2/15-2/17

Friday, February 24 - * make a deposit for 2/18-2/21

Tuesday, February 28 - File W-3/W-2s with SSA; file 1096/1099s and 1096/W-2Gs with IRS

March 2006

Wednesday, March 1 - *make a deposit for 2/22-2/24

Friday, March 3 - * make a deposit for 2/25-2/28

Wednesday, March 8 – 3/1-3/3

Friday, March 10 - *make a deposit for 3/4-3/7

Employees report February tip income to employers if \$20 or more

Wednesday, March 15 - *make a deposit for 3/8-3/10

**Make a deposit for February if under the monthly deposit rule

Friday, March 17 - *make a deposit for 3/11-3/14

Wednesday, March 22 - *make a deposit for 3/15-3/17

Friday, March 24 - *make a deposit for 3/18-3/21

Wednesday, March 29 - *make a deposit for 3/22-3/24

Friday, March 31 - *make a deposit for 3/25-3/28

* = Make a Payroll Deposit if you are under the semi-weekly deposit rule.

** = Make a Monthly Deposit if you qualify under that rule.

NOTE: Deposits made through EFTPS are due one day prior to the dates listed.

Return Filing Dates

January 3rd

File Form 730 and pay the tax on applicable wages accepted during November.

January 31st

File Form 941 for the 4th quarter of 2005. If all deposits paid on time and in full, file by February 10th.

File Form 940 for 2005 if liable for Federal Unemployment Tax (not participating or current with state unemployment tax). If all deposits paid on time and in full, file by February 10th.

File Form 730 and pay the tax on applicable wages accepted during December.

File Form 945 for 2005. If all deposits paid on time and in full, file by February 10th.

File Form 943 for 2005 (agricultural entities). If all deposits paid on time and in full, file by February 10th.

February 28th

File information returns for all payments reported to recipients on Forms 1099, 1098, 5498, and W-2G using Form 1096 as a transmittal. If filing these forms electronically, file by March 31st.

File Form W-3 along with copy A of Forms W-2 you issued for 2005. File by March 31st if filing electronically.

File Form 730 and pay the tax on applicable wages accepted during January.

File Form 8027 if you are a large food and beverage establishment. File by March 31st if filing electronically.

March 31st

File Form 730 and pay the tax on applicable wagers accepted during February